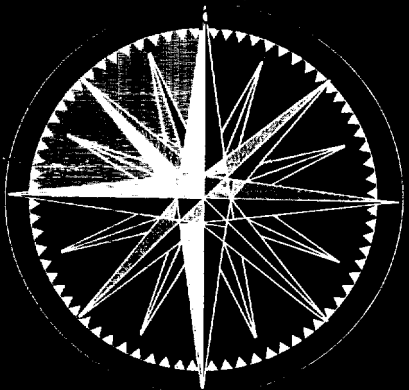


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SPECIAL REPORT

WARFARE AGGRAVATES INDIAN FOOD SHORTAGES

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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WARFARE AGGRAVATES INDIAN FOOD SHORTAGES

India's three-week war with Pakistan has worsened its chronically serious food supply problem. In the year which ended on 30 June, when both production and importation of food grains reached record highs, India's per capita food-grain consumption was still at about the low 1960 level because of continuing population growth. Inadequate monsoon rains make it clear that last fall's bumper harvest is unlikely to be repeated in 1965. Even before the fighting broke out, the government had not resolved the distribution problems which accentuated the shortages in food-deficit states, and military demands on the Indian transportation network caused further disruption. A renewed and prolonged conflict could bring famine to many parts of the country. In any event, all indications are that population increases will continue to outstrip production gains, and that food grains will remain in short supply for at least the next several years.

Background

Food grains are the principal agricultural crops in India and account for about 84 percent of the total cultivated area. Agriculture itself is the most important sector of the Indian economy, contributing almost half of the national income and some 40 percent of the exports, and directly supporting roughly three-quarters of the population.

India's agricultural requirements are enormous. The country's population of 484 million is growing by about 2.4 percent a year, or over 11 million people. Two million additional tons of food grain annually are required just to maintain current consumption levels averaging only about 14 ounces a day per person. Unless curbed, the population will reach one billion by the year 2000. The

Food and Agricultural Organization (FAO) of the UN reports that one in every 4 persons in India now is underfed and that India would need to increase food-grain production by about 50 million tons to a total of 136 million tons over the next five years (as compared with an increase of only 8 million tons over the past five years) to meet minimum nutrition requirements.

The Indian third five-year plan (1961-66) envisaged significant agricultural improvements, but is falling far short of its original goal of 100 million tons of annual food-grain production by next April. The government had hoped to increase agricultural production by about 30 percent through a program that included increased irrigation, a fivefold increase in fertilizer

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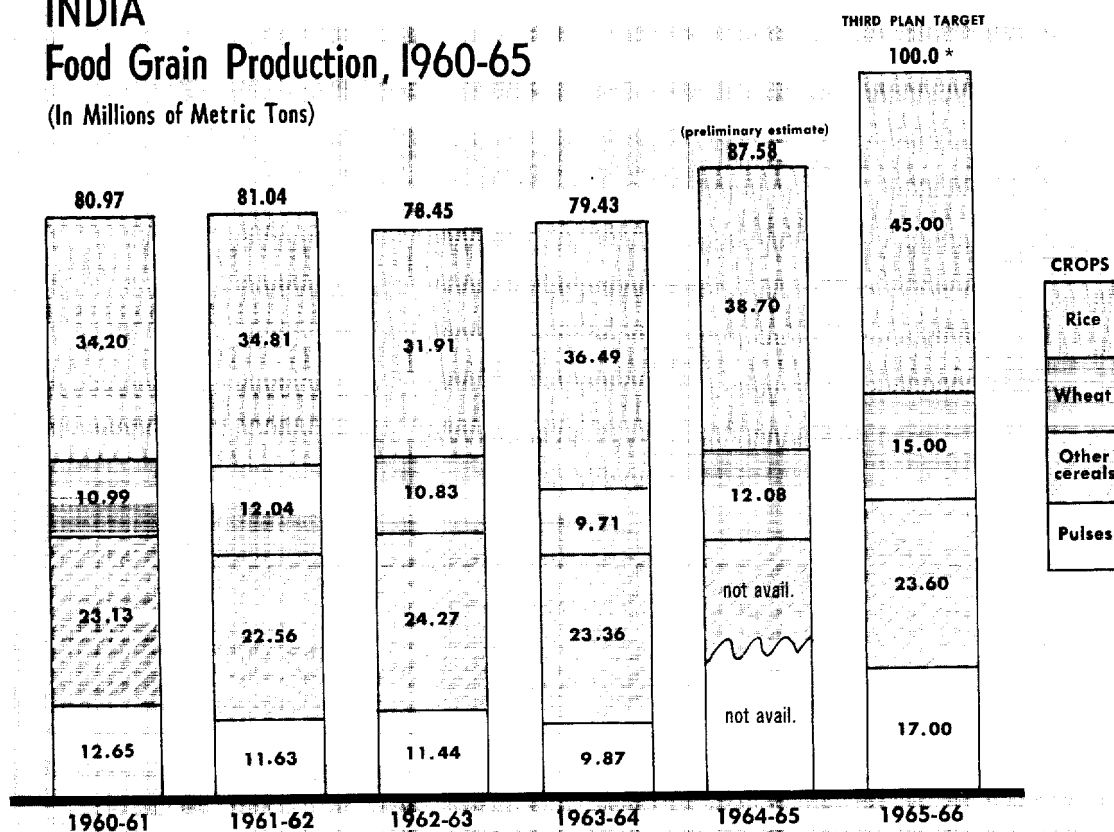
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Figure 1

INDIA

Food Grain Production, 1960-65

(In Millions of Metric Tons)



Agricultural Year 1 July - 30 June

* Revised downward to 92 million tons. Production probably will not exceed 88-90 million tons.

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consumption, and a comprehensive mechanization program.

However, agriculture had a lower priority than did industry during this period, and basic production problems remain essentially unsolved. These include: overcrowding on the land, primitive farm techniques, uncertain rainfall, low per-acre fertilizer utilization rates (2.2 pounds per acre of agricultural land, compared with about 200 pounds in Japan), inadequate credit facilities, and unsatisfactory schemes for essential supplies of seeds, fertilizer, cement, improved implements, and insecticides.

Food-grain production stagnated at about 80 million tons annually between 1960 and 1964 (see Figure 1). Even the 87.6-million-ton bumper crop produced in the agriculture year which ended on 30 June 1965 was less per capita than in 1960. The outlook for further substantial improvement this year is dim. The crop being harvested in September has suffered from irregular monsoon rains, and even the reduced target of 92 million tons now seems overambitious.

Imports

Because of inadequate production, India is dependent on imported food grains to maintain consumption levels (see Figure 2). Over 90 percent of these imports come from the US, which since

1948 has provided India with almost \$3 billion in surplus commodity aid, primarily under PL 480. During the 1964-65 season the US supplied India with a record 7 million tons of food grains.

During 1965-66, India is planning to import 6 million tons of wheat and 300,000 tons of rice from the US. Although no formal agreement has yet been concluded, the US has released supplementary funds of \$58 million for one million tons of wheat pending the signing of a new agreement.

India's industrial performance has been indirectly affected. The necessity to import food and fertilizer contributes substantially to India's acute shortage of foreign exchange reserves, which are at an all-time low. The raw material and maintenance imports required by industry have had to be curtailed.

Distribution Problems

India's most immediate food problem is the inequitable distribution of the available food grains among the states. Under the constitution, the state governments are primarily responsible for food policies. They have cooperated poorly with the central government in its efforts to establish an effective national food policy. Food-deficit states frequently overstate

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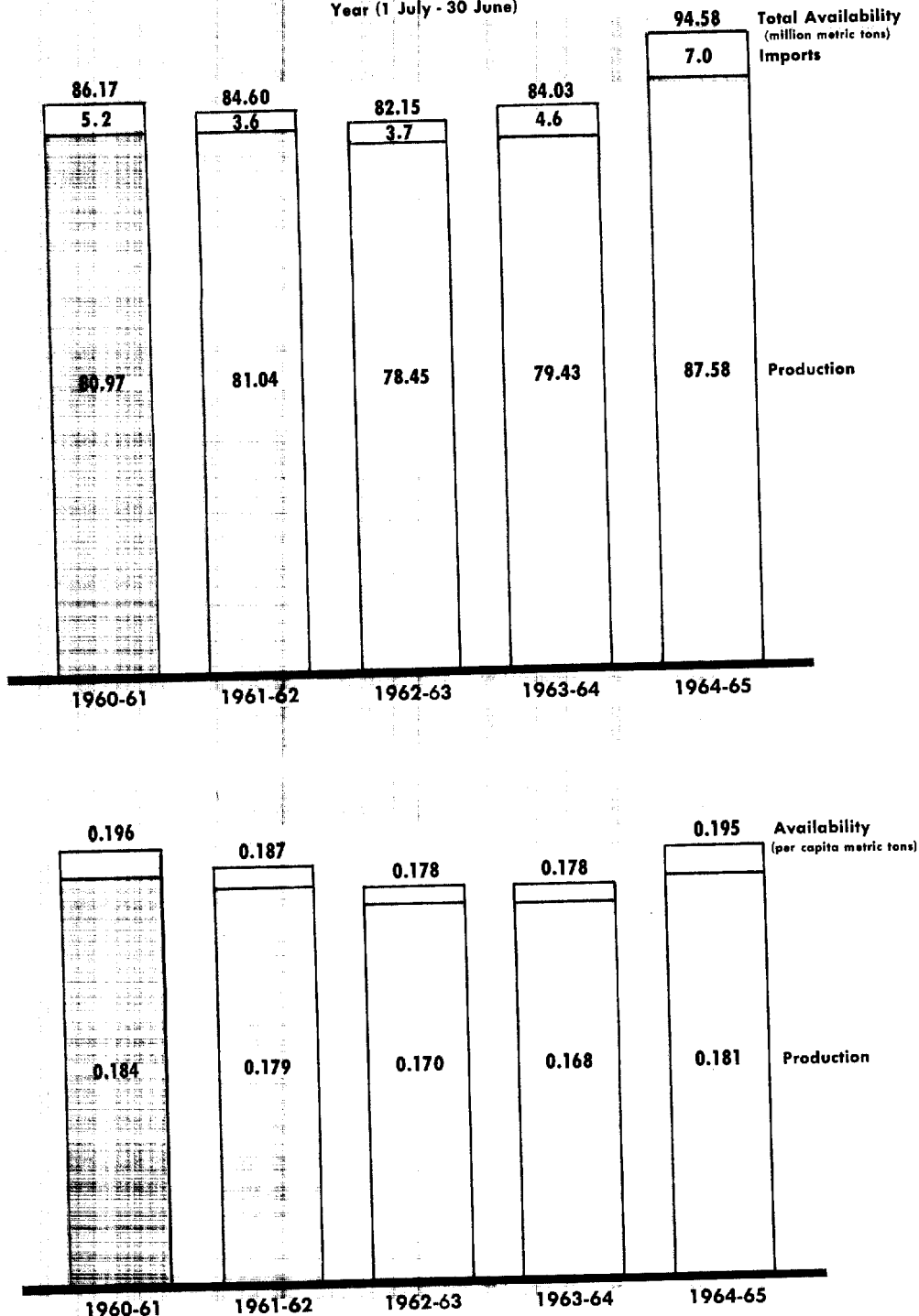
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Figure 2

INDIA Food Grain Production and Availability 1960-65

Year (1 July - 30 June)



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their deficits. The food-surplus states are not willing to share equally the hardships of the food-deficit states, and understate their surpluses. (See Map)

The central government's buffer stocks have proven inadequate largely because the surplus states have not fulfilled what was expected of them. The deficit states have then made demands on imports and prevented the government from building up stocks from abroad. The amount of food grains distributed from central stocks averaged 4.3 million tons between 1960-61 and 1962-63 but was nearly double that during the past two agricultural years.

Although the central government now is distributing more grains than ever before, this amount is still less than 10 percent of production and barely exceeds imports--not nearly enough to stabilize prices.

High Prices and Shortages

During the past two years most parts of India, including food-surplus states, have been affected by high prices and shortages of food grain at one time or another. The annual wholesale price index rose by 19 percent during 1964, the food component going up by 23 percent. Although food prices eased a bit during the first three months of 1965, they were again rising even before the fighting with

Pakistan added a new inflationary pressure. In recent weeks rice prices have exceeded the ceilings fixed by the state governments in several areas, and there has also been a sharp increase in the price of wheat in various areas.

Food prices have risen under pressure of increased demand on reduced market supplies. Over 10 percent fewer food grains were marketed in India during the first six months of 1965 than in the same period in 1964, largely because farmers withheld an estimated 40 percent of the marketable surplus.

When food prices are disproportionately high, the poorer farmers tend to sell less grain since the lower sales still yield the needed funds for their other requirements. In addition, higher prices have given wealthier farmers, who grow most of the food marketed in India, more resources to hold on to a larger part of their crops in the expectation of even higher prices. At the same time, price controls have reduced the incentive to bring their stocks to market. Efforts by the Congress Party government in New Delhi to smoke out hoards are often frustrated by the financial dependence of local Congress bosses on food-grain profiteers.

Plans and Actions

In its efforts to avoid future shortages, the government has both increased the priority

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given agriculture in its Fourth Five-Year Plan (1966-1971) and taken steps to improve the distribution of such supplies as are available under present conditions.

Under the Fourth Plan, allocations for agriculture and items that directly benefit agriculture make up \$9.2 billion, or about 20 percent of the total planned investment in all sectors. This is more than twice the allocation in the Third Plan. Direct expenditures of \$5 billion are planned on agriculture. The target is to increase production by 5 percent a year, so that the annual production of foodgrains by 1971 will reach 125 million tons, and allow actual consumption per person to rise.

Although such a target now seems unrealistic, recent actions show the government's awareness of the need for corrective steps. When New Delhi increased many import and excise duties last summer, fertilizer was permitted free entry, and a low statutory import rate was granted agricultural machinery and light diesel oil which is used primarily as a fuel for agricultural irrigation pumps.

In August, before the Kashmir skirmishing had grown into an open conflict with Pakistan, the Shastri government adopted a comprehensive food policy in an effort to control high prices and local shortages of grain.

Its principal feature provided for the introduction of food-grain rationing within the next three or four months in the eight cities with over one million population. Eventually rationing was to be extended to all urban areas with a population over 100,000, but the government set no dates for implementation, beyond indicating that it would probably take longer than 15 months.

In fact, rationing has now been extended to all these cities because of the war. The average daily ration is 12 ounces of food grain per person--two ounces less than the present average consumption--plus an additional 10 percent for manual workers.

The new policy also provides for the central government to determine the surplus or deficit quotas of wheat and rice in each state, but leaving the method of procurement to the individual states. In addition, the central government will continue to establish producer support prices (first adopted in late 1964) and food-grain ceiling prices at the wholesale and retail levels. Any state can be exempted from enforcing these ceilings if it faces administrative or other difficulties. Single-state food-grain zones, with existing strict interstate marketing controls, will be continued.

Prospects for successful implementation of these measures are poor, because India does

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not have the necessary enforcement machinery for an effective procurement and distribution program. The rationing program cannot succeed without a higher degree of cooperation from local officials than has prevailed so far. Even New Delhi's earlier more limited price stabilization measures faltered because of inadequate stocks. The problem of equitable distribution of grain is likely to remain even if the government manages to keep food grain production up with population growth.

Impact of War

At least for the immediate future, the war with Pakistan greatly darkens the picture. Its continuation would threaten famine in many areas of India. Grain distribution to food deficit areas has already been further restricted as priority military requirements cause transportation difficulties. Low ration quotas have been reduced further. In

Calcutta, individual quotas have been cut from 12 ounces of food grains per day to 10 ounces.

Even if additional imports were available, Indian port and dock facilities lack the capacity to handle grain imports much above last year's record level of 7 million tons, without allowing for possible war-related demands.

Just as the Chinese attack in 1962 caused a major reassessment of India's international orientation, adjustments in domestic policy impelled by the recent military action will have a far-reaching impact which can scarcely avoid touching agricultural plans. As last year's food riots showed, India's food consumption margin is so small that any disruption in supply or a rapid rise of prices carries the seeds of civil disorder. The war has reduced the chances of widening this margin for some time to come.

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Figure 1



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